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66-3565/A

18 AUG 1966

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The Honorable U. Alexis Johnson
Deputy Under Secretary for Political Affairs
Department of State
Washington, D.C.

Dear Alex:

I fully agree with the importance of the economic intelligence topics mentioned in your letter of 12 August. We have been expanding our research on the economy of Communist China and the construction of national accounts is an integral part of this effort. We find, however, that there are serious data problems connected with this research. At present the limited data published by the Chinese Communists permit the calculation only of a few general indexes, such as industry, agriculture and GNP. Until the Chinese decide to publish a much greater volume of reliable statistics, we will not be able to construct a more detailed set of national accounts of acceptable reliability.

We have done some preliminary work on scientific and technical manpower requirements. Data presently available do not, we believe, permit the construction of useful estimates of manpower requirements in the detail suggested by the directors of the State-Defense study; it is unlikely, moreover, that the statistics required for such detail will be available in the foreseeable future. Meanwhile, we are compiling all available information on this subject in an effort to develop some meaningful conclusions. Our findings will continue to be included in research reports and national estimates covering the Chinese economy.

State Department, JCS reviews
completed

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I am sorry to give you such a negative reply at this time. I will be glad to discuss these problems with you in more detail at any time.

Sincerely,

/s/ Richard Helms

Richard Helms
Director

Concur:

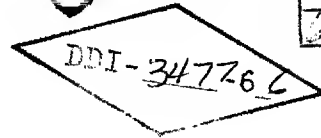
[Redacted]

R. J. SMITH
Deputy Director for Intelligence

ORR:Morell/[Redacted]
Rewritten:DDI:RJSmith:yd/[Redacted] (18 Aug 66)
Distribution:

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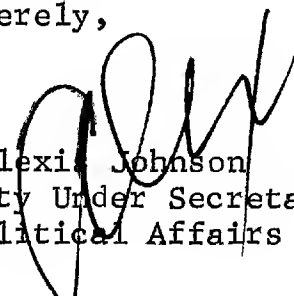
DEPARTMENT OF STATE
WASHINGTON

August 12, 1966

Dear Dick:

The Senior Policy Group, which has over-all responsibility for the State-Defense China study, has approved the enclosed recommendations from the study directors for further action on the study. I have written Bill Bundy concerning the first of these recommendations. This letter constitutes formal action on the second recommendation. You will understand, I am sure, that neither the Senior Policy Group nor the study directors intend to dictate the priorities which you must set for work on China. The intention is merely to focus attention on one possible approach to the important area of work on the Chinese economy.

Sincerely,



U. Alexis Johnson
Deputy Under Secretary for
Political Affairs

Enclosure:

Proposed Action on
Long Range China Study

The Honorable
Richard Helms,
Director of Central Intelligence,
Washington, D. C. 20505

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(OVERLINE SECURITY FILE)

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THE JOINT STAFF

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THE JOINT CHIEFS OF STAFF
WASHINGTON, D.C. 20301

SPECIAL STATE-DEFENSE STUDY GROUP

26 July 1966

MEMORANDUM FOR THE DEPUTY SECRETARY OF DEFENSE
THE CHAIRMAN, JOINT CHIEFS OF STAFF
THE DEPUTY UNDER SECRETARY OF STATE
FOR POLITICAL AFFAIRS

Subject: Proposed Actions on Long Range China Study

The final version of the Long Range Study of Communist China was distributed to interested government offices at the end of June. We believe that the following actions by the Senior Policy Group with reference to this study would now be desirable.

1. Refer the Long Range Communist China Study to the Chairman of the Interdepartmental Group/Far East with the suggestion that the IRG/FE establish an interagency China Country Committee under the chairmanship of the State Department's Director of the Office of Asian Communist Affairs. This Country Committee could, among other functions:

a. Coordinate the review of the study by the agencies represented on the IRG/FE for policy suggestions, action possibilities, intelligence targets, and contingency planning guides. It is suggested that the results of this review be reported to the IRG/FE by 1 October 1966. A further report on actions taken pursuant to the review might be requested of the Country Committee by 1 March 1967. *DDP*

b. Prepare a brief situation report on the considerable number of classified government and government-sponsored research and planning papers relating to China which are presently underway or have recently been completed. (A partial list is attached.) After reviewing this situation report, the IRG/FE may wish to recommend any steps which might be needed to improve interagency coordination. *DDP (PDI) asst*

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c. Recommend to the Chairman of the IRG/FE by March 1, 1967 what, if any, additional study on China might be undertaken by an interagency group as a sequel to the present long-range China study. DDI-?

d. Prepare an adapted version of Chapter II of the present study (Possible Developments in Communist China) which might usefully be made available to selected allied governments. DDI

2. Propose to the Director of Central Intelligence that CIA, in cooperation with other intelligence agencies, commit the resources necessary to prepare a thorough construction of Chinese national accounts and manpower requirements models in extension of Section D, Annex I, of the long-range China study. As such models are refined and corrected in the light of accumulating data, they should be of steadily increasing value both in their own right and as checks on conclusions reached by other means of economic analysis. DDI
GAA



JOSEPH A. YAGER
Department of State



STEPHEN W. HENRY
Brigadier General, USAF

Attachment:

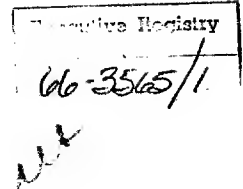
PARTIAL LIST OF CURRENT (OR RECENT) STUDIES
RELATING TO CHINA

1. Air Force Study (Selective Response to Chinese Communist Intervention)
2. Army study (Army General Purpose Force Requirements Study - 1972)
3. Army DCS/Ops Study (Pacification and Long Term Development of Vietnam)
4. Report by the Seventh Psychological Operations Group, Department of Army (Psychological Operations Estimate, Communist China)
5. Institute for Defense Analyses series (Project Mandarin)
6. A series of Stanford Research Institute studies (at least ten classified and unclassified studies, plus several published books by staff members)
7. Several studies by the Special Operations Research Organization.
8. A study under the Center for Naval Analyses (U.S. Naval Options in Asia)
9. A study by the Chairman of the Joint Chiefs of Staff's Special Study Group (Alternative U.S. Strategies for Communist China)
10. Joint Analysis Group (CIA/DIA) study (Alternative Projections of Chinese Communist Military Forces Through 1975)
11. A series of research analyses by members of the DDI/RS group of CIA (the POLO papers)
12. A J-5 paper (Recommendations for a U.S. Policy on Military Containment of and Potential Chinese Communist Aggression)

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18 August 1966

NOTE FOR THE DIRECTOR

SUBJECT: Background FYI

1. The recommendation by the Study Group is one the Staff had already made to ORR's economic specialists on China. We made it clear to the Staff some time ago that the data do not now justify so elaborate an approach as is attempted in the State-Defense China study.

2. ORR pioneered in the construction of national accounts for Communist China. A detailed set of GNP estimates for 1952-1957 was constructed using the relatively voluminous data published by the Chinese for that period. We continued these estimates for 1958-1960, but by 1960 the published data had dwindled nearly to zero. In addition, we have learned to be a little more skeptical of data published by the Chinese. Since 1960 we have not attempted to construct elaborate national accounts for China not because of lack of resources, disinterest, or ignorance of methodology, but simply because of the lack of detailed facts about China. Both GNP projections and manpower requirements are simple to calculate given a factual base to depart from. We are continuing to work in these areas as best we can, but nothing so ambitious as the State-Defense study approach will be justified until a great deal more data becomes available. The recommendation by the Study Group looks like an attempt to override our judgment, already expressed to the Study Group Staff, that the State-Defense approach is largely spurious.



STAT

R. J. SMITH
Deputy Director for Intelligence

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